RJO Previews and Perspectives for Friday, Jan 1

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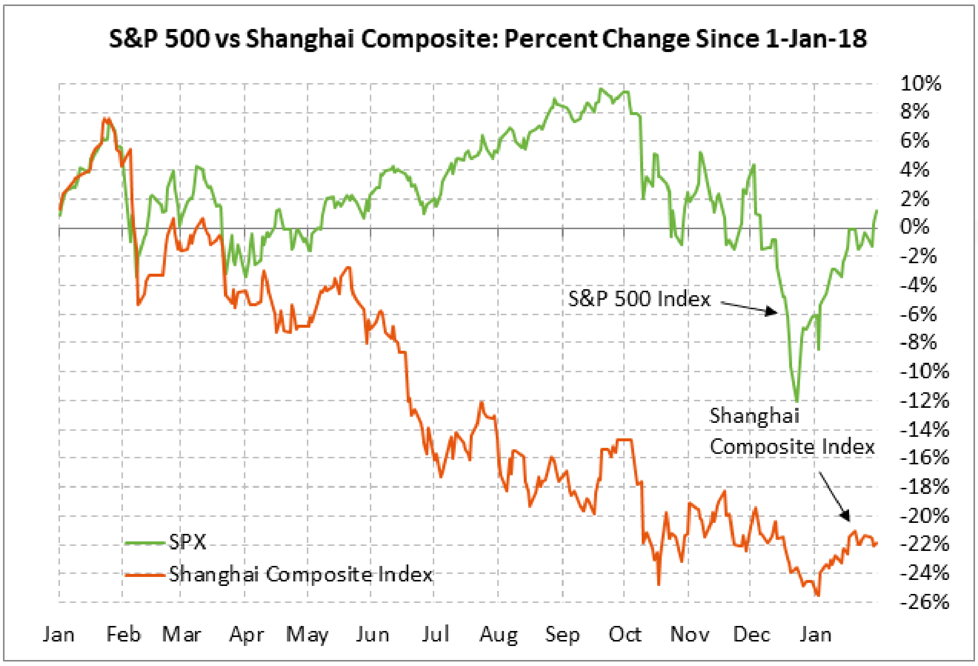
Possible Trump-Xi meeting boosts chances for trade deal -- The outcome of the Wed/Thu Liu-Lighthizer trade talks were favorable based on the various tweets sent out by President Trump on Thursday, who seems anxious to make a deal. China invited President Trump to meet with President Xi on the resort Chinese island of Hainan in late February after Mr. Trump has a summit with North Korean Leader Kim Jong Un. Meanwhile, USTR Lighthizer and Treasury Secretary Mnuchin will travel to China soon for more talks, although the dates have not yet been set. There are only four weeks left until the March 1 deadline.

Mr. Trump on Thursday tweeted that, "Meetings are going well with good intent and spirit on both sides. No final deal will be made until my friend President Xi, and I, meet in the near future to discuss and agree on some of the long standing and more difficult issues."

If a Trump-Xi meeting happens, then the two sides may be closer to a deal than advertised and they may be looking for a forum to make a dramatic deal announcement. Alternatively, the summit could be a prelude to a deadline extension and a new round of talks on the difficult structural issues. Either way, it would seem that neither side would want a meeting unless there was a good chance of success.

Indeed, Mr. Trump raised the possibility of a deadline extension for a more comprehensive deal when he told reporters that if the two sides couldn't get a deal down on paper by March 1 that he might be open to a deadline extension in order to get a comprehensive deal.

All in all, the outcome of this week's Liu-Lighthizer talks was about as good as the markets could have hoped for. The final outcome, of course, is still highly uncertain.

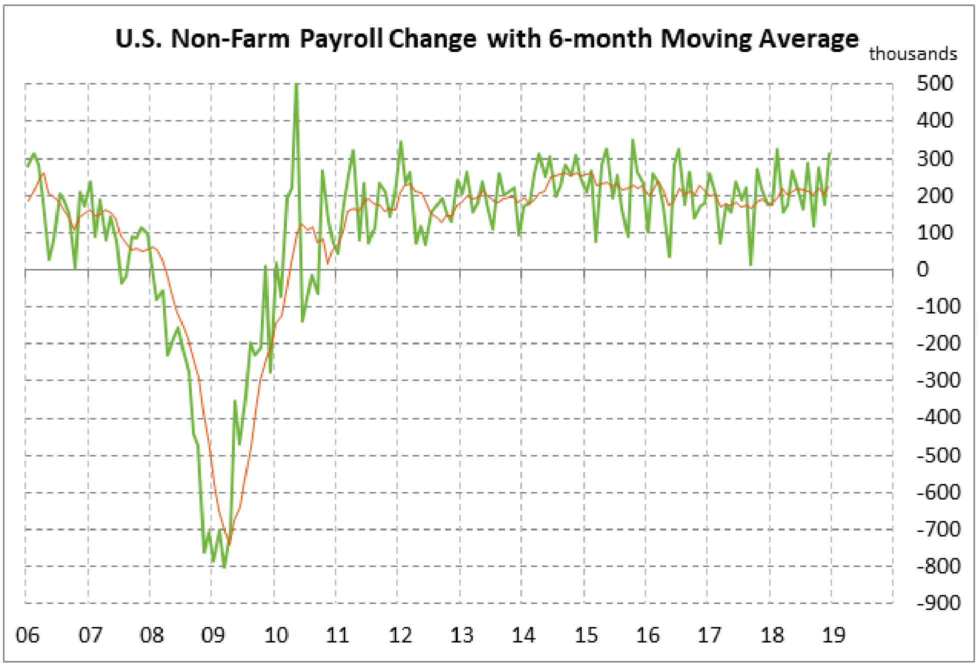


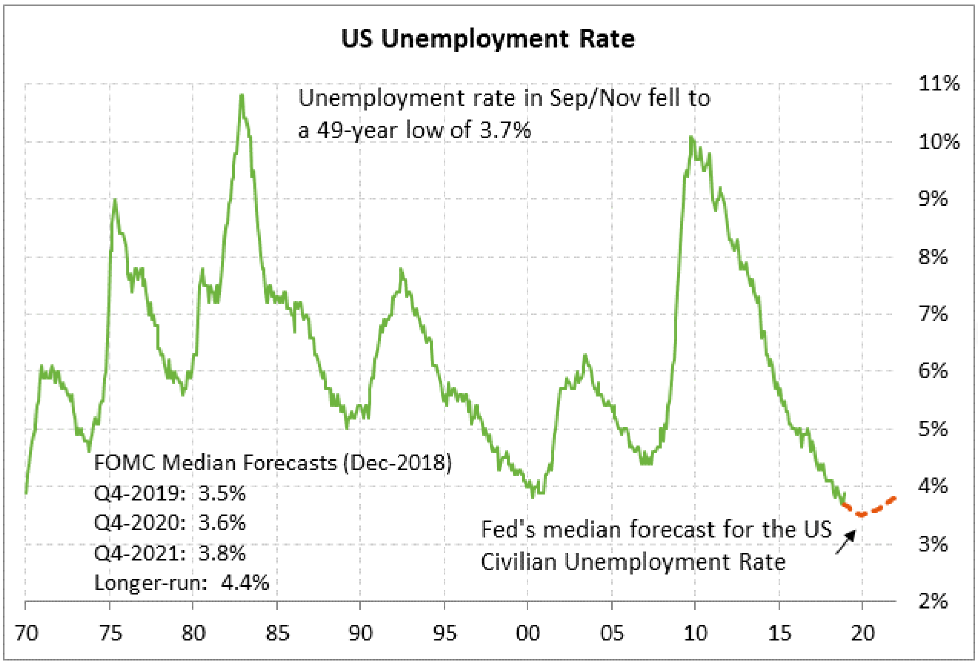
U.S. payroll report expected to downshift -- The market consensus is for today's Jan payroll report to show an increase of +165,000, falling back from December's strong report of +312,000. The payroll series has been volatile in recent months but the 6-month average is strong at +222,000. Wednesday's ADP report of +213,000 was stronger than expectations of +180,000 and that bodes well for today's payroll report. Still, the payroll report could be undercut by the 35-day partial government shutdown that ended on January 25, which negatively affected government hiring and also affected hiring at private businesses that were hurt by the government shutdown.

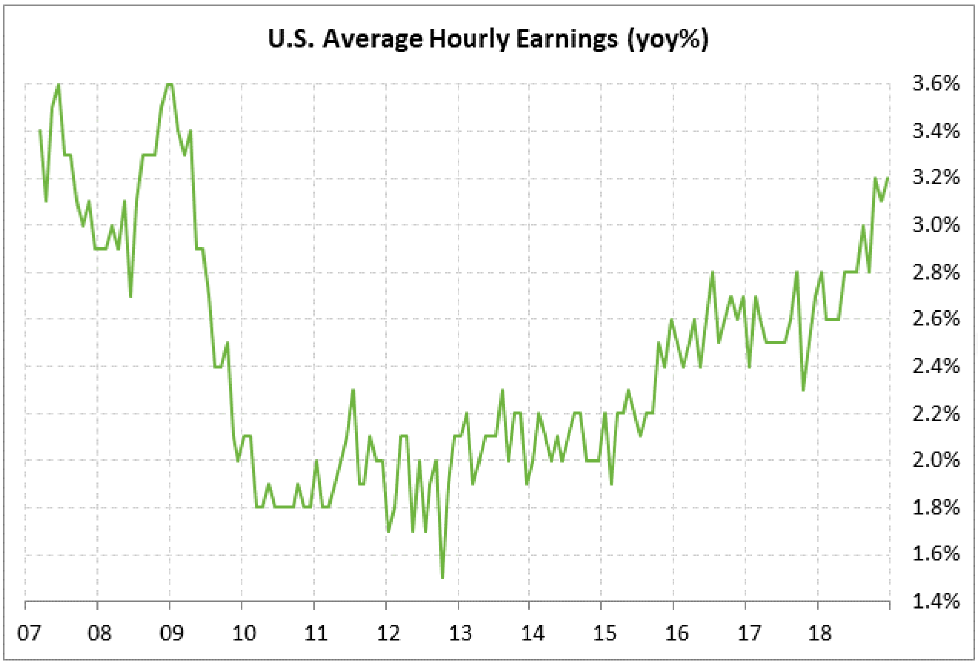
The markets are generally expecting payroll growth in 2019 to downshift to the +180,000 area from the 12-month average of +209,000 because of the slowing economy. In addition, the economy is likely fully staffed after strong GDP growth in 2018 and the fact that U.S. businesses have hired a net 20.5 million new employees since the Great Recession.

The consensus is for today's Jan unemployment rate to be unchanged from December at 3.9%, which would be 0.2 points above the 49-year low of 3.7% posted in September and November. The Fed is forecasting that the unemployment rate will fall to 3.5% by late this year and then rise slightly to 3.6% by late-2020 and to 3.8% by late-2021. However, the unemployment rate is expected to remain well below the Fed's estimate of a longer-run natural unemployment rate of +4.4%, illustrating a continued tight labor market over the next several years.

The tight labor market is finally causing a rise in wages. While the markets would normally be more worried about the impact of rising wages on the overall U.S. inflation, worries about inflation are non-existent at this stage due to the slowing economy and the plunge in oil prices in 2018. The consensus is for today's Jan average hourly earnings report to be unchanged from Dec's 10-year high of +3.2% y/y.

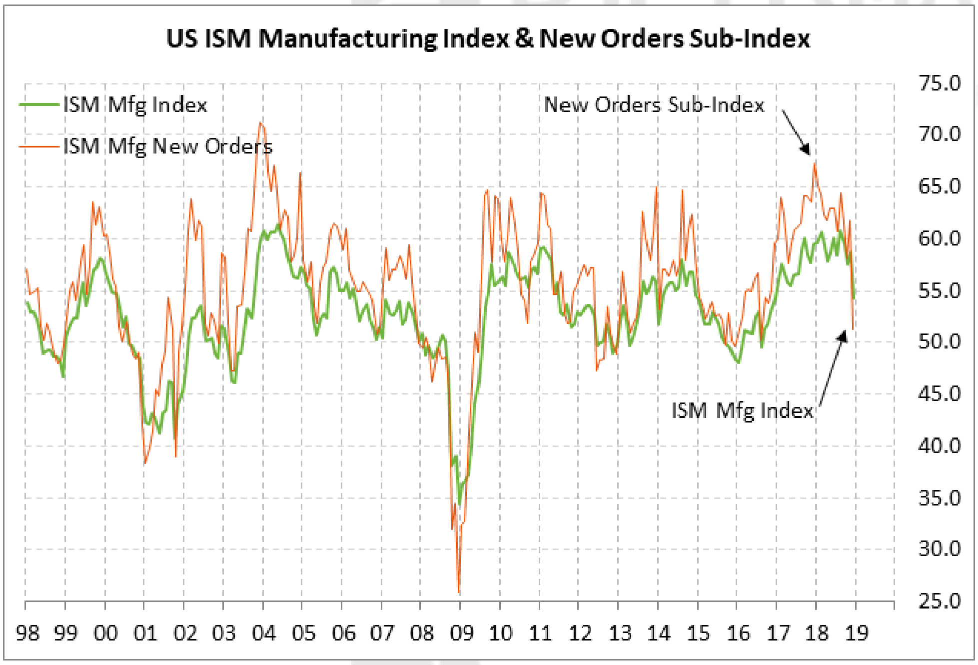






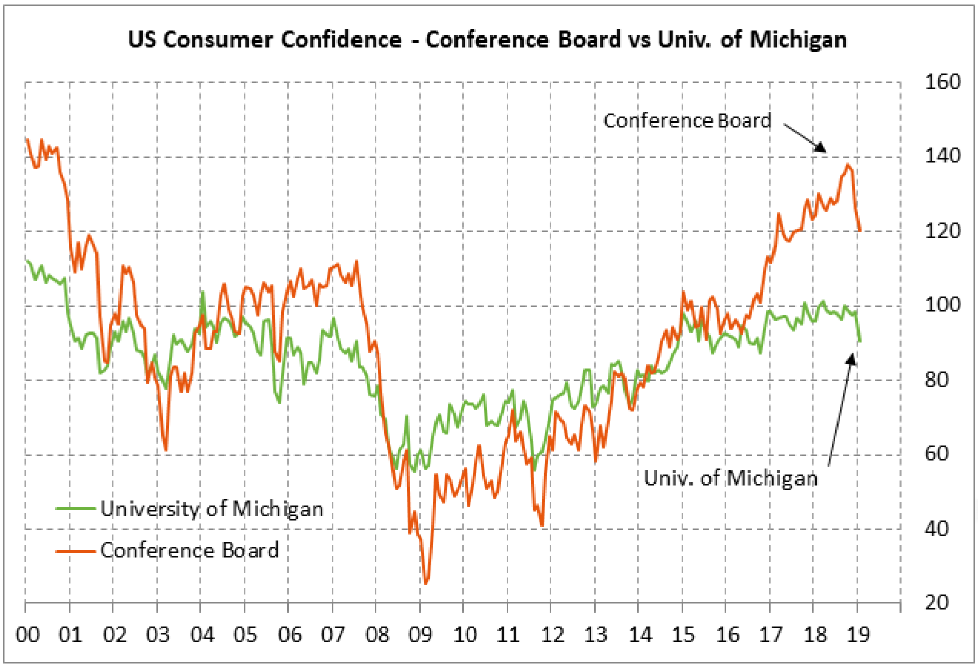
ISM manufacturing index expected to continue lower but remain in expansion territory -- The consensus is for today's Jan ISM manufacturing index to show a -0.4 point decline to 54.0, adding to December's sharp -4.5 point decline to 54.4. The Dec new-orders sub-index showed an even larger -10.5 point decline to 56.0, illustrating that manufacturing executives in December saw a sharp drop in manufacturing orders. Manufacturing sentiment took a hit in December as the U.S. stock market plunged to a 1-3/4 year low and as the U.S. government shutdown began on December 21.

Despite the weakness in December, the ISM index is still in decent shape at 54.4 and the new orders index is above-water at 51.3. That suggests that there is still net optimism in the U.S. manufacturing sector despite the slowing global and U.S. economies.



U.S. consumer sentiment expected to stabilize in late-January -- The consensus is for today's final-Jan University of Michigan U.S. consumer sentiment index to be unchanged from the preliminary-Jan level of 90.7, which would leave the final-Jan index down sharply by -7.6 points from December. The sharp drop in sentiment in early January was due to the combination of the U.S. government shutdown and the sharp downside stock market correction seen in Q4. There was also increased talk in December and January about the odds of a U.S. recession, which likely frightened consumers who paid attention to the talk.

The consumer sentiment picture improved by late January, however, after the 35-day U.S. government shutdown ended on January 25 and after the U.S. stock market rallied sharply in January by +8%. In addition, U.S. consumer sentiment is seeing support from low gasoline prices and continued strength in the U.S. labor market. U.S. home prices also continue to move higher, thus boosting household balance sheets.


US Consumer Confidence - Conference Board vs Univ. of Michigan
Conference Board
Univ. of Michigan
University of Michigan
Conference Board
160
140
120
100
80
60
40
20
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